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SUBJECT: ROMANIA: THREE BOEING 737-800S JOIN TAROM'S FLEET

REF: Bucharest 608 and previous

Sensitive but Unclassified, not for Internet distribution.

1. (U) Post EconOffs and Commercial Attache attended a December 4th ceremony at Bucharest Otopeni Airport to mark the arrival of the newest addition to the fleet of state-owned airline Tarom. Minister of Transportation Ludovic Orban, State Secretary Antonel Tanase, Tarom CEO Gheorghe Birla, Boeing Sales Director Monte Frazier, members of Tarom's Board of Directors, and media representatives were all on hand to welcome the "Brasov," a recently-built Boeing 737-800. Arriving as part of a two-plane lease agreement that Tarom concluded with the Royal Bank of Scotland (RBS), the "Brasov" will be put to work immediately on some of Tarom's most profitable routes, such as Bucharest-Madrid and Bucharest-Tel Aviv.

2. (SBU) According to Boeing Sales Director Monte Frazier, Tarom took advantage of a downturn in the aircraft leasing market to acquire two nearly new 737-800s on favorable terms after the original lessee, Air Berlin, released the aircraft for financial reasons. These two planes are part of a three-aircraft replacement plan under which Tarom will also take delivery of an additional brand new 737-800 in January 2009 on an operating lease with the asset management firm Babcock and Brown. Two of the 737s will replace aging Airbus 310s, while the third will replace a 737 which was damaged beyond repair in a runway mishap in December 2007.

3. (SBU) Despite the current economic downturn, Tarom appears to be in good shape. Its balance sheet is one of the healthiest in southeastern Europe, with passenger traffic up 8.4 percent for the 10 months through October over the same period last year. Earlier this year Tarom joined the Delta/Air France-led Sky Alliance, and recently tied Icelandair for first place among European carriers for on-time departures between April and October. In replacing two Airbus jets with Boeing models, Tarom is moving closer to having an all-Boeing fleet; these latest additions are just the beginning of a significant push to acquire new aircraft. Boeing will have to remain aggressive if it expects to sell Tarom the six aircraft it believes the company needs to acquire over the next three years. In addition to expanding the fleet size, Tarom's four 17-year-old Boeing 737-300s are nearing the end of their planned 20-year service life. The company also urgently needs to replace four Airbus 318s, which due to their weight, more limited range, and high fuel consumption are very uneconomical to operate. Still, based on Tarom's updated fleet composition of eleven 737s and four Airbus 318s, Boeing is feeling more bullish about their chances of coming out a winner when Tarom does decide to purchase new aircraft.

4. (SBU) Comment. As a state-owned carrier, Tarom's aircraft acquisitions are as much political decisions as they are commercial (reftel). It seems that Tarom was able to fly under the political radar by opting to lease, rather than purchase, three new 737s this time around. However, when it comes time to actually buy new aircraft, Tarom will be under considerable political pressure to look favorably on an Airbus offer. From a strictly economic point

of view, Tarom will save greatly on maintenance and operating costs by consolidating around the 737 as the single medium range aircraft model in the fleet. (Tarom also operates several ATR-42s and is buying new ATR-72s for domestic and short-haul trips.) However, Tarom's management has repeatedly indicated that going to an all-Boeing fleet would be unpopular within parts of the Romanian Government, even if it makes perfect business sense for the company.

This makes post's continued engagement crucial. Both at the Dec. 4 ceremony, as well as in private meetings, Tarom CEO Birla has made it clear that the Embassy's engagement has been an important source of support for him in ensuring that he is able to make his acquisition decisions based on business needs rather than politics. That being said, it is likely that the next round of replacement and expansion will engender the kind of heated political debate that was absent this time around. End Comment.

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